SOCIO-ECONOMIC FORECASTS

1990-1995

CITY OF EDMONTON

Prepared By:
City Forecast Committee
May 17, 1990

91-00296/

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SOCIO-ECONOMIC FORECASTS
1990-1995
CITY OF EDMONTON

PURPOSE

This report provides a forecast of major economic and social indicators for the years 1990 to 1995. The forecast will be used as a reference for preparation of the City's 1991 Operating Budget.

The City Forecast Committee undertakes three stages of monitoring and forecasting activities throughout the year. A full forecast report is prepared in January to be used by all departments for preparation of their five-year budget forecasts. The full report is then reviewed and updated in May for all departments to prepare their annual budgets. An update to the tables in the report is done in October for reference by the Budget Committee in their review of departmental budgets.

ASSUMPTIONS AFFECTING THE FORECASTS

Assumptions have been made for the following external factors which are considered to have the most impact on the Alberta and Edmonton economies:

1) World Oil Prices

Prices for West Texas Intermediate crude at Chicago showed an increase of 23% from $16.00 (US) per barrel in 1988 to $19.66 (US) in 1989. The oil market was plagued by excess supply in the first quarter of 1990 and as a result, prices declined from $22.76 (US) in January to $20.41 (US) in March. This situation continued into the second quarter as prices plunged to $16.25 (US) during April but rebounded to close the month at $18.55 (US). OPEC is expected to respond to falling prices by attempting to control supply through stricter adherence to quotas.

It is assumed that OPEC is able to maintain a measure of control over the world oil market during the forecast period and as a consequence, the forecast in nominal U.S. dollars per barrel, for West Texas Intermediate crude at Chicago is:

1989	$19.7	1993	$23.0
1990	20.0	1994	26.0
1991	22.0	1995	27.0
1992	22.5		

This represents an average increase of 1-2% per year after allowing for inflation.

2) United States Economy

After a moderate growth in 1988 and early 1989, some economic indicators signal a weak growth in the U.S. economy in 1990. Personal and government spending and exports are forecast to fall from 1989 levels as the result of continued high budget and trade deficits, high inflation and interest rates, and a slowdown of housing and automobile markets. Consequently, the real U.S. economic growth is forecast to be 2% in 1990, slightly improve to 2.5% in 1991 and 2.5% to 3.0% per year thereafter during the forecast period. These forecasts assume no significant change in tax policy and a reduction of federal budget deficit to approximately $100 billion by 1991.

3) Federal Goods and Services Tax (GST)

The multi-stage goods and services tax brought down by the Federal Finance Minister will replace the existing federal manufacturers' tax in 1991. The tax would be levied on and collected from all businesses in stages, as goods move from primary producers and processors to wholesalers and retailers and finally to consumers. Businesses are expected to pay a tax on their sales and claim a credit for tax paid on purchases. As a result, the tax is applied to the final consumption of virtually all goods and services in Canada, except basic groceries, prescription drugs, most health and dental services, residential rents, day care service, legal aid services, educational services and resale houses.

The GST tax rate was originally set at 9%, but reduced in December, 1989 to 7% to alleviate opposition of the tax. In order to offset the loss of revenues resulting from the tax reduction, the Federal Finance Minister has proposed the following measures: (1) the promised reduction of the 26% income tax rate for the middle income earners will not be implemented; (2) the existing high-income surtax will be extended to basic federal tax in excess of $12,500 (rather than original $15,000) and increased by 2% points; (3) the Large Corporations Tax will be increased to 0.2% and the annual fee which would have been paid to small business for administering the GST will be eliminated. Reduction of the tax from 9% to 7%, according to the Federal Finance Department's estimate, will reduce the one-time inflationary impact from 2.25% to 1.25% in 1991.

4) Interest Rates and Inflation

Canadian interest rates are influenced by monetary policies in the United States, the exchange rate of the Canadian dollar against the American dollar, the anti-inflation stance of the Bank of Canada and Canadian economic performance. Rising inflation due to continued high level of consumer spending has forced the Bank of Canada to keep the

Bank rate from dropping. As a result, the Canadian prime lending rate has risen to 14.75% and averaged 13.97% for the first four months of 1990. The high interest rates, together with federal and provincial tax increases and reductions in the federal transfer payments to provinces, are bringing about a slowdown in the Canadian economy. Recent data from Statistics Canada showed that the Canadian economy shrank by 0.1% in February, following a decline of 0.3% in January 1990. However, in anticipation of the new GST and its possible impact on inflation in 1991, the Bank of Canada is not expected to cut interest rates over the 1990-1991 period. After 1991, the rates are likely to be lower due to expected favourable monetary developments in the United States and sluggish economic activities in Canada.

5) Major Industrial Projects and Diversification for the Alberta Economy

Although there is some uncertainty as to the timing of several major industrial projects scheduled for the next five years, the related investment is still expected to provide the underlying strength for the Alberta economy. The $1.3 billion Husky heavy oil upgrader in Lloydminster is expected to create several thousand direct, indirect and induced work years over the next several years. Other energy projects include Shell's $600 million development of the Caroline gas field and Nova's expansion of its gas pipeline system. Both projects are heavily influenced by an increasing North American industrial demand for guaranteed access to stable energy supplies and world demand for plastics and resins for which gas is a major feed stock. These two trends will continue to spawn more projects because the free trade agreement guarantees American access to Canadian gas supplies.

Energy projects are sensitive to world oil prices and gas export licenses, but several non-energy projects are expected to offset any negative impact in the energy sector. Forestry projects such as Alberta-Pacific Forest Industries ($1.3 billion), Diashowa - Peace River Pulp Company ($500 million), Procter & Gamble Cellulose ($400 million), Weldwood of Canada ($420 million), Alberta Newsprint Company ($360 million) and Alberta Energy Company ($168 million) will face uncertainties related to environmental issues, but are continuing to drive investment and construction in the northern part of the Province. Chemical and petrochemical projects such as Canadian Occidental Petroleum ($60 million) in Bruderheim, Chevron ($50 million), Dow ($800 million) and Sherrit Gordon ($140 million) in Fort Saskatchewan, Du Pont ($120 million) in Gibbons and Neste Oy/Petro Canada ($300 million) in Edmonton will also contribute to substantial growth.

Over the next five years, investment in major projects in Alberta is expected to reach somewhere between $20 and $30 billion and create significant direct, indirect and induced employment in the province. A great deal of this activity will add to a more stable and diversified provincial economy.

FORECAST OVERVIEW

After adjusting to changes over the past six years related to the volatile world oil market, high unemployment, high personal and business bankruptcies, financial institution collapses and out-migration, the Alberta economy has finally climbed out of the doldrums. The adjustments have made most remaining and new businesses leaner and more competitive and have led to some diversification, particularly in the area of scientific research. The diversification will be further intensified as a result of several major industrial projects in the forestry sector. However, the health of the oil and gas industry is still the main driving force behind any sustained growth in the overall Alberta economy.

This forecast is based on a scenario in which OPEC will maintain a level of oil production control and prevent a major collapse of oil prices. This will allow for modest price increases as the world demand for oil increases at about 1-2% per year. The gradually rising oil prices, together with the expected increasing American demand for Alberta gas, are expected to renew the high level of investment activity in the Alberta oil and gas industry.

The following sections provide details of the forecasts:

1. Economic Forecasts

Canada

The growth rate of the Canadian economy dropped significantly from 5% in 1988 to 2.9% in 1989. The rate is expected to decline continually to 1.5% in 1990 and 1% in 1991 as a result of the slowing American economy, continued high interest rates, restraint on consumption from the federal and provincial tax increases and the forthcoming GST tax. Growth will return to 3-4% per year for the period 1992-1995. Canada's inflation will edge up from 5% in 1990 to 6.5% in 1991 in response to the new GST; it will return to the 5-6% range for the balance of the forecast period. Canada's unemployment is expected to go up from 7.5% in 1989 to 7.9% in 1990 and 8.2% in 1991, then falling gradually to 7.3% by 1995. The Canadian dollar exchange rate is expected to be in the range of $0.81 to $0.84 U.S. over the forecast period.

Alberta

Alberta's economy showed a strong growth of 8.5% in 1988, but the growth slowed substantially to about 2% in 1989 due to high interest rates and weak drilling activity in the energy sector. A recovery in the energy sector is expected in the 1990s as a result of stronger oil and natural gas prices and a declining Canadian dollar over the forecast period. The end of oil and gas industry re-structuring will also allow more profit to be channeled into investment in exploration and development.

For the non-energy sector, there was strong investment in machinery and equipment, pipe line construction and pulp and paper industries in 1989 which is expected to continue to 1991. Furthermore, the agriculture sector, after a downturn in 1990, is expected to grow by 6.0% in 1991, assuming a favourable outlook for grain prices and production.

Increased interest rates will continue to assert their adverse impact on the provincial economy throughout all industries. If the high interest rates continue and the Provincial Interest Shielding Program is not extended in 1991, the real estate market will be badly affected. The high rates, together with the forthcoming Goods and Services Tax, will continue to slow down economic activities in the province over the next two years.

The forecasts for Alberta economic growth is 3.0% for 1990, dropping to 2% in 1991 before a recovery to 3-4% per year thereafter. The Alberta unemployment rate is forecast at about 7.5% in 1990, then dropping to 6.5%-7.0% for the period of 1991 to 1995. The inflation rate stood at 4.5% in 1989 and is expected to be 5.5% in 1990, 6.5% in 1991 and in the neighbourhood of 5% for 1992 to 1995. After negative net migration from 1983-1987, Alberta has experienced positive net migration since 1988 and this is expected to continue throughout the forecast period as the economies of other provinces become weaker relative to Alberta and the Federal Government continues to raise international immigration quotas.

Edmonton

Edmonton will follow the provincial trend of economic growth over the forecast period. Both inflation and unemployment are expected to be slightly higher than the provincial averages. Edmonton's inflation is expected to increase from 4.5% in 1989 to 6.5% in 1991 as a result of the new Goods and Services Tax and then decline to 5.0% over the 1993-1995. Edmonton's unemployment will decline from 8.4% in 1989 to 6.5% in 1995.

2. Population Forecasts

As a result of increasing positive net migration and stable natural increases over the next five years, Edmonton's population is expected to grow at a rate of approximately 1.6% per year, increasing from 583,900 persons in 1989 to 641,200 persons by 1995.

Population will change within the City with the inner city declining relative to the suburban areas. The share of inner city population will drop from 58.3% of total population in 1989 to 50.7% in 1995.

3. Development Activity Forecasts

Building permit values increased 11% to $517 million in 1989. Over 1990 to 1995, permit values are expected to increase at approximately 6-8% per year, reaching $730 million to $830 million by 1995; however, these totals could be influenced by the timing of several major projects.

Total city housing starts in 1989 rose 7.5% to 2,904. Continued population growth through positive net migration, low apartment vacancy rates and lower interest rates in the later years of the forecast period will combine to boost housing starts to 3,000 units in 1990 and to 5,500 units by 1995, an increase of 11% per year.

Residential servicing in 1989 was estimated at 1,072 single-family lots being fully serviced. Another 1,416 lots were serviced in the year but not counted as being fully serviced because poor weather prevented all road work from being completed. This large overhang of partially serviced lots in 1989 will affect the total number of lots being fully serviced in 1990. In addition, continued high interest rates and the GST will influence adversely the speed of land servicing in 1990 and 1991. Therefore, land servicing for single family lots is expected to increase to about 2,600 lots in 1990, 2,400 lots in 1991 and 4,800 in 1995 in response to the increase in housing starts. In the short term, the decline of the serviced single-family lot supply has resulted in higher lot prices. The continued reduction in inventory and reasonable demand will continue to lead to higher lot prices in 1990. No significant servicing of multi-family lots is anticipated because of a still ample supply.

An emerging feature of the land development/housing market is the increasing volatility as shown in the first half of 1990. Because of the limited supply of serviced lots, any increase in demand could result in a sudden rise in lot prices or servicing activity.

Industrial servicing activity will remain low with 3 ha on average per year serviced over 1990 to 1995. One development in 1990 may account for approximately 10 ha of industrial land. Absorption will be 20 ha

per year for the same period. The supply of serviced industrial land is large enough to meet any significant increase in absorption.

Servicing of commercial land along the major highway corridors will average 15 ha per year over 1990 to 1995.

4. Social Forecasts

Single-parent family formations continue to occur at a more rapid rate than total family formation. In 1986, 15.1% of all families in Edmonton were headed by single parents and by 1995 this proportion is expected to reach 17.8% of all families. Approximately 85% of single-parent families are female-headed, with incomes averaging less than 60% of two-parent families. Children from single parent families appear to be at greater risk of encountering problems in school and are more likely to have difficulties with the law.

The divorce rate is expected to increase gradually to 345 per 100,000 population by 1995, contributing, in part, to the greater incidence of single-parent families.

A high proportion of the divorced later re-marry, resulting in so-called "blended families." While many of these become stable relationships, many others result in further divorce and many more show problems of adjustment, particularly between children and their new step-parents.

The average age of the population is increasing. Edmonton had 8.9% of its population in 1989 aged 65 and over; this percentage is expected to rise to 10.1% by 1995. Requirements for increased health and other social supports and services are expected to show a greater than linear increase since seniors are living longer and the needs of these "older" seniors are more extensive than those in their sixties. While many seniors are now better off financially, 46% still require the support of the Guaranteed Income Supplement and there is indication that the spread in income between those better off and those in the lower ranges has increased. Elderly single women have benefitted little from these changes and continue to be in high risk of poverty. Seniors wishing to remain independent in their own homes will increase pressure on Home Care and other home support services, while waiting lists will grow for places in auxiliary hospitals and other facilities which provide health-related care in addition to accommodation.

Sources of immigrants have changed, with those from Europe declining as a proportion of the total and those from Asia and South/Central America increasing. Assisting these newcomers to become acclimatized not only to a new country but also to a new and very different culture will require increased outreach and community development activities. Work with the existing population is also indicated to promote their

acceptance of the new immigrants and the cultural differences they bring with them. Enhanced staffing at the civic level will be needed, with an emphasis on flexible and adaptable workers capable of operating in a multicultural milieu.

Needs and demands for services will grow with the increasing population. Some sub-groups (e.g. working single family heads with children) will have greater growth rates than the rest of the population and will create increasing need for social and other support services (such as out of home child care) at a time when federal funding will decrease in real terms.

Community degeneration is progressing in various areas so the characteristics usually associated with the inner city are becoming apparent in many older neighbourhoods. Certain housing types, which in the past provided inexpensive accommodation for those on marginal incomes (e.g. rooming houses) are being torn down and replaced with more expensive housing or industrial and retail premises. The current low vacancy rate further contributes to the shortage of affordable housing for those with low incomes.

Family violence is becoming recognized as a serious and common social problem. Statutory services are available to children suffering violence and abuse but services to women in such circumstances are inadequate and for the men who perpetrate the violence and abuse, services are nearly nonexistent. Another disturbing trend is emerging, that of abuse of the elderly by their children, by care-givers or other individuals.

Education professionals state that nearly one-third of students who enter high school do not complete grade twelve, having dropped out along the way. Unskilled and semi-skilled jobs have decreased in our society and entrance requirements to better jobs effectively exclude these dropouts from competition.

The above social trends will impact all levels of government. Municipalities will face greater and more diverse demands requiring flexible response, innovative services and emphasis on initiating and assisting self-help and other community groups and resources.

The following tables provide detailed economic, population and land servicing forecasts for the period 1990-1995.

TABLE 1

SELECTED ECONOMIC FORECASTS, 1990 - 1995

May 17, 1990

	Actual 1989	1990	1991	1992	1993	1994	1995
CANADA AND ALBERTA							
World Oil Prices (U.S. $/Barrel)(1)	19.7	20	22	22.5	23	26	27
Economic Growth Rate (%)							
Alberta	2.0(e)	3.0	2.0	3.5	4.0	3.5	3.0
Canada	2.9	1.5	1.0	3.0	3.5	4.0	4.0
Prime Lending Rate (%)	13.5	14.5	14.0	12.0	10.5	10.0	10.0
Alberta Net Migration (000)	11.0(e)	13.0	15.0	18.0	20.0	22.0	22.0
EDMONTON							
Population (000)	584	592	600	610	620	631	641
Employment (000)	364	373	381	390	400	409	418
Unemployment Rate (%)	8.4	7.8	7.6	7.3	7.0	6.8	6.5
Inflation Rate - CPI (%)	4.5	5.5	6.5	5.5	5.0	5.0	5.0
Average Weekly Earnings Percent Change (%)	5.5	6.0	6.0	5.5	5.5	5.0	5.0
Vacancy Rate (%)							
Apartment (Oct.)	2.1	1.5	1.5	2.0	2.0	2.0	3.0
Downtown Office (Dec.)	13.0	14.0	13.0	12.0	10.0	10.0	8.0
Housing Starts (Units)	2,904	3,000	3,000	4,000	4,500	5,000	5,500
Building Permits							
(Current $ Millions) - Low	517	550	500	580	630	680	730
- High	-	650	600	680	730	780	830

Sources:

1. 1989 actual: Statistics Canada, Alberta Bureau of Statistics, Bank of Canada, Canada Mortgage and Housing Corporation, Colliers Macaulay Nicolls Inc. and Edmonton Planning and Development Department.

2. 1990-1995 forecasts: City Forecast Committee, May 1990.

Notes: (1) World oil prices are for West Texas Intermediate Crude at Chicago in $US.
(e) Estimate

TABLE 2
CITY OF EDMONTON
PROJECTED POPULATION BY AGE GROUP

May 17, 1990

	Actual 1989	1990	1991	1992	1993	1994	1995
AGE GROUP							
0-4	46,200	46,200	46,200	46,600	47,100	47,800	48,400
5-9	40,500	41,600	42,600	43,500	43,800	43,900	44,100
10-14	33,900	35,900	37,700	39,300	41,400	43,400	44,700
15-19	38,500	35,800	34,600	35,900	37,100	38,800	41,000
20-24	58,100	56,600	55,200	52,300	49,400	46,500	44,200
25-29	67,300	67,300	66,500	66,400	66,300	66,100	65,300
30-34	61,300	62,300	63,500	64,300	65,300	65,800	66,200
35-39	47,400	48,900	50,700	52,300	53,900	55,500	56,700
40-44	37,200	39,700	41,700	42,800	44,100	45,500	47,100
45-49	29,000	29,800	30,900	32,900	35,100	37,400	39,900
50-54	25,700	26,200	26,700	27,300	28,100	28,800	29,700
55-59	24,700	24,500	24,400	24,500	24,700	25,100	25,700
60-64	22,100	22,600	23,100	23,300	23,400	23,300	23,200
65-69	18,800	19,200	19,500	19,600	19,800	20,200	20,700
70+	33,200	35,100	37,000	39,000	40,800	42,600	44,300
Total	583,900	591,700	600,300	610,000	620,300	630,700	641,200

Source: Planning and Development Department, October 1989

Notes: 1. Figures are rounded to nearest 100

TABLE 3

EDMONTON 1990 SINGLE FAMILY

RESIDENTIAL LAND SERVICING

Area Structure Plan	1989 Overhang	1990 New Servicing	Total
Castle Downs Extension	1	70	71
Riverbend	185	236	421
West Jasper Place	252	123	375
Meadows	65	22	87
Palisades	-	18	18
Burnewood	147	513	660
Lake District	109	1	110
Pilot Sound	67	46	113
Twin Brooks	187	86	273
Mill Woods	320	81	401
Clareview	83	-	83
TOTAL	1,416	1,196	2,612

Source: Edmonton Planning and Development Department, May 1990

Note: The 1990 servicing forecasts are comprised of the overhang of 1,416 lots partially serviced in 1989 and 1,196 lots where servicing agreements will be signed and servicing is expected to be completed in 1990.

TABLE 4

EDMONTON SINGLE FAMILY RESIDENTIAL LAND SERVICING BY AREA, 1989 - 1995

	Actual 1989	1990(3)	1991	1992	1993	1994	1995
SECTOR							
West(1)	226	375	700	1,000	1,100	1,300	1,500
Southwest	270	694	600	850	950	1,150	1,200
North(2)	318	199	350	650	700	750	800
Northeast	80	196	200	300	350	500	500
Southeast	138	1,148	400	600	600	650	750
Resubdivision	-	-	150	100	100	50	50
	1,072	2,612	2,400	3,500	3,800	4,400	4,800

Source: Edmonton Planning and Development Department, May 1990

See Map 1 for sector boundaries

Notes: The following servicing status may affect servicing forecasts:

(1) West Sector - Lewis Farm ASP and Grange ASP: examining servicing requirements for unusual soil conditions.

(2) North Sector - Lake District ASP: storm and sanitary servicing needs to be resolved; further planning approvals are occurring to dovetail with actual constructed interceptors.

(3) The 1990 servicing forecasts are comprised of the overhang of 1,416 lots partially serviced in 1989 and 1,196 lots where servicing agreements will be signed and servicing is expected to be completed in 1990.

May 17, 1990

TABLE 5

EDMONTON INDUSTRIAL AND COMMERCIAL LAND SERVICING

	Industrial	Commercial	Total
Actual[1]	(ha)	(ha)	(ha)
1989	1.87	14.36	16.23
Forecast[2]			
1990-95 (per year)	3.0	15.0	18.0

Sources:

1 Edmonton Planning and Development Department, Edmonton Public Works Department, May 1990.

2 Edmonton Planning and Development Department, May 1990.

TABLE 6

MAJOR PLANNED PROJECTS IN EDMONTON
(Projects Exceeding $5 Million in Construction Costs)

Project	Estimated Costs (1) ($ Million)
Grant MacEwan (CN Site)	$87
Royal Alex Hospital Addition	77
Cross Cancer Institute Addition	60
City Hall	41
Apartment Building (11724-110 Avenue)	20
St. Joseph's Hospital (29 Ave. & 106 St.)	18
Londonderry Mall Renovations	15
Macdonald Hotel	14
West End Motor Hotel (102 Avenue & 184 Street)	12
University LRT Station	12
Rossdale Water Treatment Plant	10
Parliament House Apartment (9640 - 105 Street)	10
River Wind Apartments (107 St. & Sask. Dr.)	10
Belgravia Condos (11620 - 79 Avenue)	10
Mayfield Common Shopping Centre	9
First Capital Shopping Centre (14451-Stony Plain Road)	7
Royal Bank Building Upgrading	7
Palace Hotel (4225 Calgary Trail N.)	6
Royal West Edmonton Inn (10010 - 178 Street)	6
Terwillegar Square Shopping Mall	6
China-Town Senior Citizens Apts. (9530 - 102 Ave.)	6
Hudson Bay Upgrading	5
Chateau Lacombe Upgrading	5
Apartment Building (10110 - 81 Ave.)	5
Art. Space High Rise Apt. (9330 - 101A Avenue)	5
T.D. Baker School (18 Street and Mill Woods Road)	5

Note:

(1) For initial costs or costs of remaining phases for projects having a development permit.

Source:

Edmonton Planning and Development Department, List of Projects Estimated for 1990 and Beyond, March 1990.

Map 1

CITY SECTORS